

Message Text

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16

ACTION EB-07

INFO OCT-01 EA-07 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

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R 110210Z SEP 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 212

INFO USDEL MTN GENEVA

USMISSION USUN

AMCONSUL MEDAN

AMCONSUL SURABAYA

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EO 11652: N/A

TAGS: ETRD GATT

SUBJ: MTN DATA BASE--SUBSIDIES

REF: STATE 204944

1. EMBASSY AWARE OF NO DIRECT EXPORT SUBSIDIES AFFECTING AGRICULTURAL OR OTHER GOODS PRODUCED IN INDONESIA. QUITE THE CONTRARY: ALL EXPORTS SAVE HANDICRAFTS AND FINISHED GOODS ARE SUBJECT TO 10 PERCENT EXPORT TAX.

2. NO DOMESTIC INCENTIVES FOR EITHER AGRICULTURAL OR INDUSTRIAL PRODUCTION CAN BE CALLED MAJOR, BUT MENTION MIGHT BE MADE OF THE FOLLOWING:

A. INVESTMENT INCENTIVES FOR BOTH FOREIGN AND DOMESTIC FIRMS CONSISTING OF CUSTOMS EXONERATION GRANTED
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BY GOI INVESTMENT BOARD ON CERTAIN CAPITAL GOODS AND INITIAL

SUPPLIES OF IMPORTED RAW MATERIALS (WHICH, HOWEVER, CUSTOMS OFTEN UNWILLING TO RESPECT IN FULL) AND OF INCOME/CORPORATE TAX HOLIDAYS MAY PROVIDE COMPETITIVE EDGE TO OUTPUT THESE VENTURES. TO DATE FEW OF THEM PRODUCE FOR EXPORT, BUT AMONG THESE ARE REPRESENTED SEVERAL AMERICAN FIRMS. INCENTIVE-AIDED EXPORT ENTERPRISES INCLUDE MINING OF COOPER CONCENTRATES (AMERICAN FIRM), ELECTRONIC COMPONENT MANUFACTURE (3 AMERICAN, AMONG OTHER FIRMS), SHRIMP TRAWLING AND PROCESSING (AMERICAN FIRMS AMONG OTHERS), LOGGING (AMERICAN AND OTHER FOREIGN AND DOMESTIC FIRMS).

B. CREDIT IS SOMETIMES DIRECTED TO PREFERRED BORROWERS AS A SOCIAL MEASURE--EG, ON GROUNDS THEY ARE WEAK INDIGENOUS ENTERPRISES DESERVING OF PUBLIC SUPPORT. ONLY EXAMPLE INVOLVING EXPORT INDUSTRY OF WHICH EMBASSY IS AWARE WAS BANK INDONESIA RESCUE OPERATION DIRECTED TOWARD TIMBER PRODUCERS. RATHER THAN SYSTEMATIC EXPORT SUBSIDY THIS CONSISTED OF EFFORT TO FORESTALL COLLAPSE OF INDIGENOUS-OWNED LOGGING ENTERPRISES, MANY CONTROLLED BY INFLUENTIAL GROUPS, IN WAKE OF PRECIPITOUS DECLINE IN EXPORT PRICES AND MARKET. BANK INDONESIA ALSO REQUIRES STATE BANKS ADMINISTER SUBSIDIZED LENDING PROGRAM FOR INDIGENOUS SMALL BUSINESSES (EXCLUDING TRADERS). MAXIMUM AMOUNT ANY ONE LOAN IS RPS 5 MILLION (ABOUT US \$120,000). WE BELIEVE TOTAL VOLUME OF SUCH LOANS OUTSTANDING IN NEIGHBORHOOD \$65 MILLION. BANK INDONESIA SUBSIDIZES INTEREST RATES AND ABSORBS SUBSTANTIAL LOSSES (CIRCA 40 PERCENT) IN COLLECTION.

C. IN CASE OF FOOD PRODUCTION FOR DOMESTIC CONSUMPTION, INCENTIVE IS GIVEN IN FORM OF SUBSIDIZED INPUTS--FERTILIZER AND CREDIT. WHILE THIS TENDS TO REDUCE COST OF PRODUCTION, GOI ALSO MAINTAINS RETAIL FOOD PRICE STABILIZATION PROGRAM WHICH HAS RESULTED IN RECENT YEARS IN DOMESTIC RICE AND SUGAR PRICES WELL BELOW WORLD MARKET, WITH CONSEQUENT STIMULATION OF CONSUMPTION AND IMPORTS. CONSUMPTION AND IMPORTS OF FERTILIZER SIMILARLY STIMULATED. NEWSOM

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